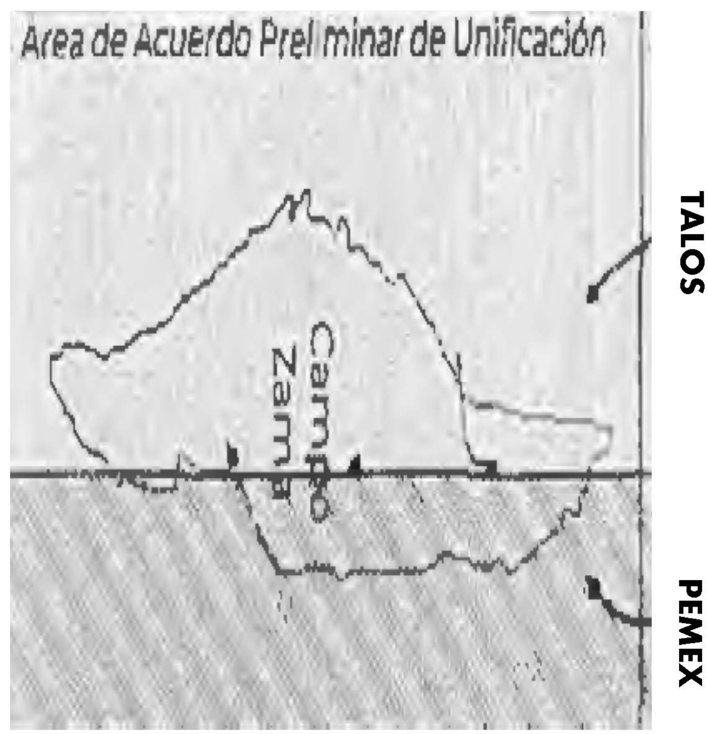
Houston Chronicle updates reporting on Zama oil discovery in Mexico: Talos's strategy questioned

George Baker reports on the outlook for Talos to develop its 600-million barrel discovery

HOUSTON, TX, UNITED STATES, September 27, 2021 /EINPresswire.com/ -- SUMMARY: Regulatory inexperience coupled with the resource nationalism and Pemex-centric orientation of the current government in Mexico have thus far prevented the development and commissioning of the Zama oil reservoir that was discovered by Houston's Talos Energy in 2017. Four years after the discovery--with the first barrel of oil still not produced--Energy Minister Rocío Nahle, 57, designated Pemex as the operator of the pending merged (or unitized) area. Talos is challenging the designation by appealing to the US-Mexico-Canada trade agreement, a strategy questioned by some Mexico specialists.



Hypothetical unit area by pre-unitization agreement of Sept. 18, 2018

Sketch showing Talos & Pemex ownership areas of the Zama reservoir

"The opportunity cost to the State from foregone royalty payments has been in hundreds of millions of dollars—and counting," a former oil company Mexico country manager emailed us. "The cost to Talos and its partners is also hundred of millions of dollars both in sunk costs and delayed income," he observes.

"Houston oil professionals hope that Talos prevails," says George Baker, editor of Houston-based Mexico Energy Intelligence™, "not only for the sake of its shareholders but for the sake of all present and future investors in the Mexican upstream."

RESUMEN: México y sus inversionistas upstream han perdido cientos de millones de dólares en regalías, impuestos y ganancias por las demoras burocráticas en el desarrollo y puesta en servicio del yacimiento de petróleo de Zama que fue descubierto por Talos Energy de Houston en 2017. Cuatro años después del descubrimiento, aún faltando el primer barril de petróleo, la

> Talos is taking a risk in not seeking a ruling in Mexican courts to protect its claim to be the Zama operator”
>
> *Juan Carlos Collado*

Secretaría de Energía Rocío Nahle, de 57 años, designó a Pemex como la operadora de la futura área fusionada (o unificada). Talos disputa la designación apelando al acuerdo comercial entre Estados Unidos, México y Canadá, una estrategia cuestionada por especialistas. "Los petroleros de Houston esperan que Talos prevalezca", dice George Baker, editor de Mexico Energy Intelligence ™, con sede en Houston, "no sólo por el bién de sus actionistas, sino por él de todos los inversionistas presentes y futuros en el upstream mexicano".

The Houston Chronicle (excerpts), "Talos's Energy's Journey from Commercial Discovery to Commercial Dispute" (Sept. 20, 2021)

Four years after making the largest commercial oil discovery in Mexico in a generation in 2017, the commercial expectations of the consortium led by Houston-based Talos Energy continue in suspense. A positive outcome in which Talos is the operator continues to be an elusive challenge for the company.
Zama has upward of 600 million barrels of recoverable oil and gas. The reservoir in its Block 7 is believed to extend beyond the area that was awarded to Talos in 2015, thus requiring an agreement with the neighboring leaseholder. Together, they would define a “unit area,” the terms of a joint operating agreement and decide on which party would be the operator.

As Talos’s neighbor is Pemex, a plan would be needed to finance Pemex’s share of the costs as well as an export agreement for Talos’s share of crude oil production. These matters had been on the table since September 18, 2018, when Talos and Pemex entered into a preliminary agreement to negotiate in good faith. Negotiations proceeded for almost 30 months with an agreement finally in sight in March of 2021 but still beyond reach. At that point, the ball was passed to the Ministry.

Many of the issues would have been resolved with data obtained by Pemex from an adjacent, offset well, named Asab-1, on its side of the lease line. But Pemex, after repeatedly promising that it would drill Asab-1, never did.

On July 2, Mexico’s energy minister, Rocío Nahle, sent a letter to both Pemex and Talos in which she designated Pemex as the operator. Minister Nahle gave Pemex 30 days to come up with a preliminary development plan “in coordination with Talos.” Sixty days then passed in radio silence.

In its press release on the 61st day, on September 3, Talos advised regulators and investors that it intends to do something about the adverse decisions by Mexico’s Energy Ministry that cause “loss or damage to the Company.”

Talos accuses the Ministry of unspecified violations of trade agreements, including the United States-Mexico-Canada Agreement, or USMCA, the successor to North American Free Trade Agreement.

A question is whether Talos alone has the firepower to win legal or trade disputes with Pemex and the Mexican government. The company would need help from inside Mexico, but the oil trade association, AMEXHI by its acronym, repeatedly intones the “commitment to Mexico” of its members but dares not criticize the lack of reciprocity from the Mexican government. Journalists, lawyers and economists are mute.

The American Petroleum Institute in Washington, DC, so far has not commented on irregularities in the Mexican upstream.

The worst case for Talos is that the development of Zama stalls indefinitely. The company’s press release of September 3 focuses on the Ministry, but Pemex and regulators are also complicit in dragging their feet, the former in not drilling Asab-1, the latter in rubber-stamping decisions handed to them by the Ministry.

Mexico City energy lawyer Juan Carlos Collado discerns a risk to Talos from not seeking a judge’s ruling on the legal force of Nahle’s July 2 letter. “Better safe than sorry,” he muses.

Houston oil professionals hope that Talos prevails, not only for its sake but for the sake of all present and future investors in the Mexican upstream.

El peor caso para Talos es que el desarrollo de Zama se estanca indefinidamente. El comunicado de prensa de Talos del 3 de septiembre se centra en el quejarse de la SENER, pero Pemex y los reguladores también son cómplices de la demora, el primero en no perforar Asab-1, el segundo en someterse a la SENER.

El costo de oportunidad para el estado de los pagos de regalías no percibidos ha sido de cientos de millones de dólares, y sigue aumentando. El abogado Juan Carlos Collado, de la Ciudad de México, percibe un riesgo para Talos al no solicitar el fallo de un juez sobre la fuerza legal de la carta de Nahle del 2 de julio. "Más vale prevenir que lamentar", reflexiona.

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